



**Directorate of  
Intelligence**

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# **International Economic & Energy Weekly**

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**13 June 1986**

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**International  
Economic & Energy Weekly**

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**Synopsis**

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**Perspective—Seoul-Washington Trade Talks**

After six months of quiet, behind the-scenes diplomacy, US-South Korean trade negotiations will move back into the spotlight during the annual bilateral trade talks on 23-24 June. Seoul is bracing for tough talk from Washington on access to the South Korean market for goods and services and renewal of South Korea's benefits under the Generalized System of Preferences.

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**Eastern Europe: Economic Impact of Chernobyl'**

The accident at Chernobyl' already has hurt the East European economies, particularly by depressing hard currency earnings. Other economic costs have been minimal so far but could mount, especially if Moscow shunts some of its costs associated with Chernobyl' onto Eastern Europe.

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**Peru: Shortcomings in Garcia's Economic Program**

President Garcia's economic measures have paid some early dividends in terms of both reduced inflation and faster economic growth, but these benefits are likely to be short lived. The economic deterioration should not be severe enough to damage Garcia politically this year, but, if present trends continue, he may ease his confrontational stance with foreign creditors to foster an increased inflow of development capital.

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**Syria: Uneven Domestic Impact of Economic Crisis**

Syria's economic crisis is beginning to hurt all segments of society, but the Assad regime seems unwilling to take necessary steps to reverse the decline. Although economic problems place new pressures on the regime, we believe Syria's strong and ruthless internal security apparatus, combined with extensive price subsidies on food staples, will contain popular unrest for the time being.

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**Gaza and the West Bank: Recession Sets In**

The economies of the West Bank and Gaza are feeling the pinch of the recession in Israel, Jordan, and the Persian Gulf states. Economic growth has stagnated, unemployment has increased, and remittances from abroad have declined. Growing joblessness, especially among educated Palestinians, may portend additional political problems in the West Bank.

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### Eastern Europe: Economic Impact of Chernobyl'

The accident at Chernobyl' already has hurt the East European economies, particularly by depressing hard currency earnings. We anticipate that these losses, which stem from Western reluctance to purchase East European agricultural products, will persist at least until the end of this year. Other economic costs have been minimal so far but could mount, especially if Moscow shunts some of its costs associated with Chernobyl' onto Eastern Europe.

#### Export Prospects Damaged

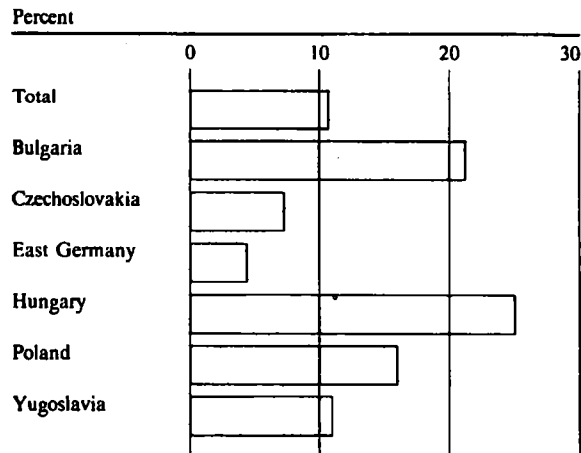
Lost hard currency earnings, already exceeding \$100 million, constitute the main cost so far of the Chernobyl' accident to Eastern Europe. The European Community's now-expired ban on imports of dairy products, fruit, vegetables, fresh meat, and live animals from the East European countries (except East Germany),<sup>1</sup> similar import restrictions still being enforced by other countries, and ongoing consumer fears have cut into the region's agricultural sales. Even some nonfood exports, such as textiles and toys, reportedly have been refused in the West because of possible contamination.

We estimate that hard currency export losses could mount to \$600 million in 1986, about 3 percent of the region's sales to the developed West. The losses would fall most heavily on Hungary, Bulgaria, and Poland, which depend on agricultural products for a significant share of their hard currency earnings. As a result of this weakened trade performance, Yugoslavia and Bulgaria's deficits would swell, and Hungary and Poland's surpluses would decline considerably.

We believe adverse publicity and rumors concerning the safety of East European food will continue to depress Western demand at least through the

<sup>1</sup> Bonn has guaranteed that East German goods transiting West Germany to EC markets meet West German health standards.

#### Eastern Europe: Food Products as a Share of Exports to the Developed West, 1984



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end of this year. Many regimes probably fear that the EC's plan to continue testing food products until September 1986—despite the lifting of the import ban—may frustrate efforts to retain or recapture market shares. These regimes have expressed concern that the EC is using Chernobyl' as a front for protectionism. Western importers also may balk at the extra cost and effort to buy from Eastern Europe.

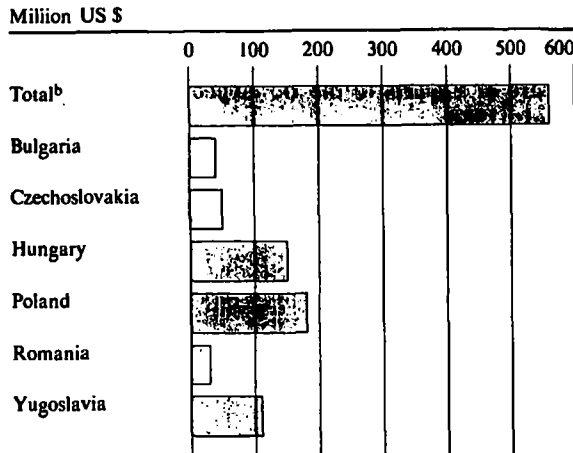
#### Other Hard Currency Earnings Also Depressed

Fears of radiation and contaminated food have dashed hopes for a boom year in tourism. Adverse

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### Eastern Europe: Drop in Hard Currency Trade Balances, 1986<sup>a</sup>



<sup>a</sup>Estimated. Assumes each country loses one-fourth of its food exports to the Developed West as a result of the Chernobyl<sup>1</sup> incident.

<sup>b</sup>Data excludes East Germany.

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publicity has dampened Western tourism in Eastern Europe, while checks for radioactivity have contributed to costly delays in transportation. Hungary, Poland, and Yugoslavia have all cited canceled bookings, and Budapest estimates the cost at \$20 million. The Poles have complained that Western inspections of its ships and canceled port calls have reduced transport earnings. Other countries probably have experienced similar problems.

### Uncertain Impact on Agriculture and the Consumer

We believe the effect on agricultural output will be minimal except perhaps in Romania and Poland—recipients of the highest radiation doses. So far, the main impact has been the ban on grazing in several countries, which has increased dependence on stored—or possibly imported—feed. As of mid-May, Poland, Czechoslovakia, and Bulgaria had purchased additional soybean meal as a result of the accident.

Also, dairy industries have been affected; cows can produce hazardous milk for about two months after extended eating of contaminated feed. Although winter grains planted last fall should be safe, leafy vegetables could have been exposed to contamination.

The accident initially hurt consumer supplies somewhat in Eastern Europe. The press reported milk shortages in some countries, as dairy products were removed from stores. Consumer resistance is causing a domestic glut of fresh vegetables, but the hoarding of canned goods is contributing to spot shortages. The situation may reverse next spring if consumers shun canned goods processed this year and opt for fresh vegetables. Consumer expenditures on health products, services, and medicines to counteract contamination almost certainly have risen.

### Limited Impact on Domestic Energy Supplies

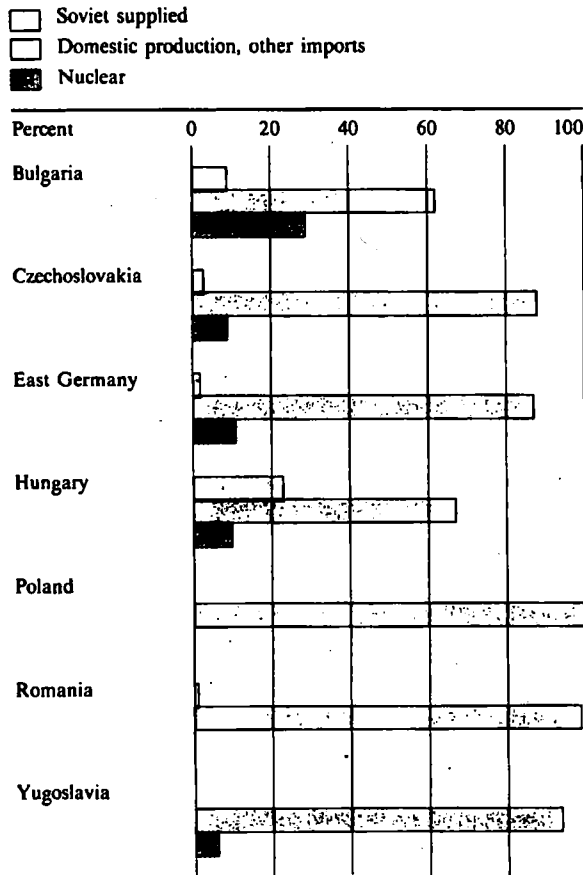
So far, the Chernobyl<sup>1</sup> accident has had marginal impact on Eastern Europe's domestic energy supplies. Only the Hungarians have mentioned a small decline in electricity imports from the USSR. The timing of the accident—while energy demand is at a seasonal low and hydropower generation at a seasonal high—has provided a cushion against possible cuts in Soviet exports of electricity. Nonetheless, as seasonal demand increases after the summer, we believe that the Soviet power industry may be unable to cope with the loss of the Chernobyl<sup>1</sup> plant solely by boosting thermal generation and shifting power from other areas of the USSR. Any sizable power shortfall would not happen before the fourth quarter when demand will be more than 20 percent higher than now and East European energy supplies are typically tight.

Disruptions in electricity deliveries from the USSR would affect the individual East European economies differently. Soviet deliveries comprise less than 4 percent of overall electricity supplies in most East European countries. Hungary and Bulgaria

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### Eastern Europe: Sources of Electricity for Domestic Consumption, 1984



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are the exceptions, depending on the Soviets for nearly 25 and 10 percent of their electricity, respectively. However, these countries have access to the CEMA and Austrian power grids, and we believe reductions in Soviet deliveries would be spread out to minimize the impact on any one country. Moreover, an improved energy situation in Eastern

Europe as a result of a less severe winter than the previous one, increased domestic production, and opportunities to buy low-priced oil in the West bode well for the region's ability to absorb any Soviet electricity cutbacks.

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### Costs to the Nuclear Programs

The Chernobyl' disaster is unlikely to erode the commitment of most East European countries to nuclear power—CEMA recently approved a nuclear program to the year 2000. The regimes have long viewed nuclear energy as a clean, virtually inexhaustible power source, and as a path toward energy self-sufficiency. Most of these governments have publicly vowed to continue their nuclear programs, reiterated the advantages of nuclear power, and emphasized the safety and advanced technology of their own reactors. Yugoslavia, however, has already postponed two nuclear plants, and, according to the US Embassy in Bucharest, Romanian President Ceausescu claimed that his country would rethink the construction of additional reactors.

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In the wake of Chernobyl', we believe Eastern Europe is likely to adopt additional safety measures that will boost the cost of nuclear power. Possible measures include: locating nuclear plants farther from heavily populated areas; designing new plants with additional safety features; and maybe turning to the West for some equipment and, in extreme cases, entire plants. As a result, nuclear construction programs might be delayed because of increased costs and public anxiety over nuclear safety.

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### Who Will Pay?

Western refusal to buy East European food may have some side benefits:

- Eastern Europe could increase food exports to the USSR and consequently reduce its soft currency debt to Moscow. Eastern Europe has been pressed by Moscow to pay its debts by exporting higher quality products.

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# Nuclear Reactors in Eastern Europe



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- If the USSR does not absorb all of the food rejected by the West, East European consumers could benefit from better and more plentiful supplies than are now available. [redacted]

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Eastern Europe would bear additional costs if Moscow attempts to share the burden of the Chernobyl' disaster with the region. For example, the USSR could demand that Eastern Europe provide workers, materials, and technology—possibly imported from the West—to help in the cleanup effort. If electricity losses in the USSR were greater than estimated, Moscow could decide to divert some oil exports to the region to domestic thermal power plants or to sell it in the West to earn additional hard currency. Moscow could press Warsaw to increase deliveries of coal for use in Soviet power plants. [redacted]

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On the other hand, the East European countries that have suffered losses as a result of the Chernobyl' accident most likely will try to recover some of their lost revenue from the USSR. [redacted]

[redacted] The press has speculated that President Ceausescu asked Moscow to make up Romanian losses, [redacted]

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[redacted] Although many of the regimes may press the USSR to import agricultural products on a hard currency basis, Moscow, with its own financial problems, is unlikely to provide complete compensation. In turn, we believe some countries may use the costs incurred by the accident as an excuse for not meeting their economic commitments to the USSR. Financially strapped Poland, Romania, and possibly Yugoslavia also may try to shift some of their losses to the West using the disaster as a reason to reschedule existing debts and possibly obtain new credits. Poland and Romania are already using the loss of exports as an excuse for not meeting payments to Western creditors. [redacted]

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